Common Sense Tips on Investing

EDUCATE YOURSELF

Invest According To Your Needs and Risk Tolerance

Whether you're an experienced investor or a financial novice, you know what's best for yourself and your family.

If you haven't already done so, define your financial objectives. Do you need a regular return of income each month? Do you need easy, quick access to your money? Will you be investing for a short period of time or over a longer term? Will your tax bracket influence your investment choices? Your answers to such questions and your own needs should determine which investments, if any, are right for you.

While everyone invests to make money, it's wise to bear in mind that no investment is risk free. Before investing, decide how much risk you are comfortable with and can tolerate. Are you willing or able to risk losing all or part of your money in a speculative venture?

Don't believe claims that you can earn big profits without risking the loss of some or all of your money! Returns on investments are related to the risks investors assume. To achieve greater potential returns, investors must take greater investment risks.

Some investments, like mutual funds investing in government securities, may involve a lesser risk. Even still, these investments may be subject to substantial market price fluctuations resulting in the loss of some of your principal. Other investments, like high yield or "junk" bond funds and limited partnerships, may involve a much higher degree of risk.

Limited partnership investments, which are generally suitable only for more experienced and sophisticated investors, also are not very "liquid." This means that it may be very difficult, if not impossible, to later sell your partnership interest and turn your investment back into cash.

"Penny stocks," which are generally priced at $5 or less per share, should be considered very cautiously. These stocks involve a great deal of risk because they are often issued by companies without a proven track record. Sales pitches for penny stocks, additionally, can include wildly exaggerated claims about companies' future business prospects.

You may wish to provide a ***written*** description of your financial needs and risk preferences to any potential financial adviser or investment salesperson (stating, e.g., that you wish to receive a steady monthly income from low-risk, conservative investments) so that your investment goals will be clearly understandable. You may also want to have a potential adviser or salesperson confirm to you ***in writing*** his or her understanding of your financial goals, investing experience and risk tolerance.

Invest Only In What You Understand

The more you know about an investment ***before*** you invest, the better prepared you'll be to make a wise decision. Consider carefully whether prospective investments will meet your personal needs and also be consistent with your personal risk preferences.

Mutual funds, for example, differ as widely as automobile models. Automobiles may be sold as family sedans, flashy sports cars or rugged four-wheel drive vehicles. Similarly, mutual funds may have investment objectives as varied as seeking aggressive growth or conservative income.

Often the name given to a mutual fund may not adequately reflect its actual investment objective. Don't be misled by terms such as "income" fund or "government" fund into believing that investments in such products will be free of risk. All investments carry some risk, including the possible loss of your principal. Keep in mind, with any potential investment, that past success does ***not*** guarantee future performance. This year's "top-rated" mutual fund may become next year's average fund.

Once an investment is made, it's too late to change your mind. Don't be bashful about asking questions or seeking different opinions if you're unsure about anything. After all, it's your money that is at risk! You can also compare what various experts say about investing by sifting through the wealth of valuable information available at public libraries, bookstores and the Internet.

Ask For A Prospectus and Read It Before You Invest

A prospectus is a written legal document that provides important information about a mutual fund investment. Use the prospectus before buying to learn about the risks involved in a potential investment, the sales charges you'll pay for buying or selling the investment, and the financial and background history of the company issuing the mutual fund, including any regulatory actions taken by the state or federal government.

If a salesperson promoting an investment becomes evasive about providing you with a prospectus or claims that an investment is too urgent for you to spend time reviewing such written information, immediately become suspicious.

Never make an investment based simply on a salesperson's telephone pitch. Be skeptical as well of sales pitches made during television "infomercials," on radio talk shows or over computer on-line services and the Internet. Ask for and read a prospectus ***before*** opening your checkbook!

Recognize The Important Difference Between Bank Deposits and Investments

Bank deposits are the money you put in a savings or checking account. Certificates of deposit (CDs) are a special type of deposit for which customers may earn higher rates of interest as they agree to keep their money deposited for longer periods of time. Banks must return your deposited money when you ask for it (although you may be penalized for withdrawing your money from a CD early). The Federal Deposit Insurance Corporation (FDIC) generally insures bank deposits for up to $100,000 if something happens to your bank and it cannot return your money.

In contrast, **investments**, such as mutual funds, are ***NOT*** insured by the FDIC against loss, even if you purchase them at a location in a bank. Does this mean you should avoid buying investments at a bank? Not at all. But it is very important to recognize that any investments you may buy at a bank (or at a brokerage firm, investment company or insurance company) involve risk and your principal and interest or dividends will not be insured or guaranteed. If interest rates rise or market values decline, you may lose money.

The Securities Investor Protection Corporation (SIPC) is a nonprofit corporation overseen by the federal government which offers protection to investors against the loss of their securities if a broker/dealer firm holding them fails. SIPC will ***NOT*** protect customers if their investments lose money due to declines in market values.

Calculate What An Investment Will Cost

Recognize that securities brokers receive compensation on virtually any securities product they sell to you. A broker who calls himself or herself a "financial consultant" or "investment counselor" may not necessarily provide impartial advice or have any extra training or expertise other than that of selling stocks and bonds. If a broker's company sponsors an investment, he or she may be more motivated to recommend it to you. Ask if the broker will earn any extra commission or incentives for selling the product to you.

Ask specifically about any commissions or charges you may need to pay for buying ***and*** later selling securities or for maintaining an account. Commission expenses and fees directly reduce your rate of return from investments. Vague reassurances, such as "any charges will be minimal compared to what you'll earn," should not be acceptable.

Mutual funds, for instance, are sold at net asset value (NAV), calculated as assets of the fund divided by the number of shares owned by investors. Investors who buy fund shares pay the NAV, plus any sales charge. Mutual funds assessing sales charges are termed "load funds." Mutual funds without sales charges are called "no-load" funds. Fund sales charges, in turn, may be assessed when investors purchase shares ("front-end loads") or when investors redeem or sell their shares ("back-end loads"). Shares may be redeemed at the NAV of the fund at any time, less any sales charge imposed. In some instances, investors may also be levied a charge to reinvest their dividends, or income earned, back into a fund. Avoiding sales charges means that more money can actually be invested in a fund.

Investors must also look at fees to determine which mutual funds will ultimately be less costly. Management or advisory fees and 12b-1 fees (charged by some funds to pay for advertising and marketing costs) are generally assessed on a periodic basis and, like sales commissions, reduce your return. A no-load fund with high fees may be more expensive over time than a load fund with lower fees. Investors should periodically review the NAV of their mutual fund investment, which may be found in most local newspapers.

Investigate Sellers and Products

Ask a salesperson attempting to sell you an investment about his or her employment experience, education and possible disciplinary history or problems encountered with regulatory agencies. Avoid doing business with persons who have track records of regulatory disciplinary actions, negative arbitration decisions and civil litigation judgments.

Contact the Securities Division to check whether a professional or firm is licensed to do business in Tennessee. The Division can also provide information on an individual's employment and disciplinary history and on the types of securities an individual is qualified to sell. You can also contact NASD Regulation to find out if agents or firms have disciplinary histories with securities regulators.

Almost all investment opportunities must be registered in the state where they are sold. You can also check out a potential investment by contacting the Securities Division. Although we can't make your investment decision for you, we can tell you whether or not particular securities are registered with the Division.

GOOD ADVICE ON AVOIDING FRAUD

Just Say *NO* If You're Not Interested

You were raised to believe that one should be courteous to phone callers and people who visit you at home. When it comes to telemarketers, though, you are under absolutely no obligation to stay on the phone with a stranger who simply wants your money. Just say you are not interested and hang up. Save your good manners for family members and friends.

Beware Of Strangers Bearing Tips

Whenever a stranger calls promoting an investment, immediately ask yourself - why am I being called? Ask the person how he or she obtained your name and telephone number. If an unknown caller is truly selling a "sure thing," why is he or she contacting you, rather than alerting friends and previous customers? Be very wary of offers which promise quick, spectacular profits or "hot" investment opportunities promoters claim are based on "inside" information.

Ask if the person will explain the investment proposal to your attorney or accountant or to a family member. If you receive a challenging reply, such as "can't you make your own decisions," you've gotten a clear signal that it's time to hang up the telephone. If an investment professional such as a stockbroker or financial planner starts pressuring you to make an immediate decision to buy a securities product, firmly resist.

Dollars and Sense Go Together

Don't let your investment plans go awry by accepting an unknown stockbroker, financial planner or telemarketer's offer to handle all of your financial affairs for you. Stay in charge of your own finances. Carefully read everything before signing any papers. If you have trouble understanding a legal document or monitoring an investment, seek assistance from a family member or a professional whose business reputation can be confidently confirmed rather than from a stranger.

Never give a stranger your social security number, your bank account numbers, the date a bank certificate of deposit (CD) is coming due or a copy of your signature. To a dishonest individual, such information can be a quick means to steal your hard-earned money.

When purchasing a securities product, never make your check out to a salesperson. Similarly, be wary of a saleperson's offer to have a courier quickly pick up your money, a clear tip-off to a possible fraud.

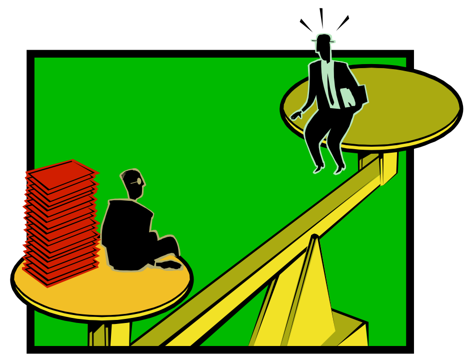
Never Judge People By Their Promises

Experienced scam artists can sound very smooth and they can make even the flimsiest deal seem as safe as putting your money in a bank. One telemarketing trick, for example, is to call some people and predict that the price of gold (or a stock) will rise and call other people and predict that it will fall. When gold prices do move, the telemarketer calls back those folks who've received the "right" prediction and pitches another "sure" prospect.

Swindlers often try to take advantage of the trusting nature of mature residents. One tactic is to become friendly with prospects, calling several times just to chat and try to earn a measure of comfort and trust before perpetrating a scam.

The sound of someone's voice, particularly over the telephone, has no bearing on whether a potential investment is legitimate or wise. Always carefully investigate the salesperson, the firm and the investment opportunity ***before*** investing your money.

Balance Emotion With Caution



Unscrupulous salespeople can try to exploit your natural fears and emotions. If you are worried that your savings will run out or that future health care costs may overwhelm you, a salesperson may repeatedly try to reassure you that investing in the product he or she is promoting will ease your troubles.

Fear of an uncertain future and an understandable desire for financial security can cloud someone's good judgment and leave a person in a much worse financial situation. Promoters count on people listening only to their attractive sales pitches and not looking further into the details of an offer. If you do invest, make sure that your decision is based on logical economic good sense for you and not on an empty promise.

For Some, Experience Is The Best Teacher

For others, who received little or no education on handling money and relied on their spouses to make financial decisions, money management can be difficult at first. Widows or widowers who have received windfall insurance payments following their spouses' deaths can often be targets for aggressive or unscrupulous salespeople. If you are financially inexperienced, seek the advice of a family member or a trusted professional before deciding what, if anything, to do with your savings or investments.

Be Alert For Potential Problems

Actively follow up on your money. You should receive regular written reports on your investments. If you've invested in a mutual fund or other security, your reports should come from the security's issuer and not a salesperson.

Keep good records for all your investments. Retaining information such as account forms, transaction statements or confirmations, and copies of correspondence or notes detailing your instructions to a stockbroker or financial planner can provide an effective "paper trail" in the event of a dispute.

Look for signs of excessive trading of your funds or unauthorized trading which may be generating extra commission income for a salesperson at your expense. Be wary of recommendations to dramatically change your financial goals or to take increased risks that may be difficult to afford if losses occur.

Insist that account errors or discrepancies be promptly explained in writing and verify that requested corrections have been made on your next statement. Don't let a sense of friendship keep you from demanding satisfactory answers to your questions. If your broker is unwilling to resolve a complaint, bring the complaint to his or her branch manager. If you think something is wrong, contact the Securities Division and follow-up by filing a written complaint outlining the problem and the parties involved.

All Things Don't Come To Those Who Wait

If you are relying on a regularly paid out return to supplement your income and your stockbroker or financial planner stalls when you want to retrieve your profits, he or she may be trying to cover up a problem. Dishonest individuals sometimes stonewall their victims by telling them that their funds are not available while they then pocket the money themselves. Sometimes they pressure investors to "roll over" profits that don't exist into new and even more alluring investments to further delay the point at which a fraud will be uncovered. Unless your money is in an illiquid (not easily traded) investment, you should be able to receive your funds or profits within a reasonable period of time (usually within a week from sale).

Pride Goes Before A Fall

If you feel you may have been the victim of an investment fraud, don't let your pride, embarrassment or a fear that some may think you incapable of managing your affairs prevent you from ***immediately*** reporting the problem to the Securities Division. Although you may not be able to recover all of your money, promptly notifying the Securities Division may help other investors avoid losing their lifetime's savings.

One Wrong Turn Doesn't Deserve Another

If you have been victimized by an investment scam, a dishonest salesperson may well try to take a "second bite" by promising that you will recover your losses (and maybe even make gains) by investing in another venture. Such "reloading" scams never succeed and they can be especially damaging when you only have a limited amount of money to meet your future needs.

REMEMBER - BEFORE YOU INVEST...

Understand what you are buying and investigate who you are buying it from.

Contact the Securities Division to learn whether a salesperson or firm is licensed and whether an investment opportunity is registered with the State of Tennessee.

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